

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA**

In re:

GOPHER STATE ETHANOL, LLC

Debtor.

**Bky. No. 04-34706 (DDO)
Chapter 11**

**NOTICE OF HEARING AND MOTION FOR EXPEDITED HEARING
FOR INTERIM AND FINAL ORDERS AUTHORIZING DEBTOR
TO OBTAIN POST-PETITION FINANCING AND
AUTHORIZING USE OF CASH COLLATERAL**

TO: The entities specified in Local Rule 9013-3

1. Gopher State Ethanol, LLC ("Debtor" or "GSE"), through its undersigned attorneys, moves the court for the relief requested below and gives notice of hearing.

PRELIMINARY HEARING

2. The court will hold a **preliminary** hearing on this motion at **11:00 a.m. on August 18, 2004** before the Honorable Dennis D. O'Brien, Courtroom 228A, 238 Federal Building, St. Paul, MN.

3. Any response to this motion must be filed and served prior to the hearing. **Unless a response opposing the motion is timely filed, the Court may grant the motion without a hearing.**

FINAL HEARING

4. The court will hold a **final** hearing on this motion at **10:45 a.m. on September 1, 2004**, before the Honorable Dennis D. O'Brien, Courtroom 228A, 238 Federal Building, St. Paul, MN.

5. Any response to the motion for a final order must be filed and delivered not later than a date to be determined, August 27, 2004, which is three (3) days (excluding Saturdays, Sundays or holidays) prior to the time set for the final hearing, or filed and served by mail not later than at a date to be determined, August 23, 2004, which is seven (7) days before the time set for the hearing (excluding Saturdays, Sundays and holidays). **Unless a response opposing the motion is filed and served within such deadlines, the relief sought may be granted without a hearing.**

6. This Court has jurisdiction over this motion under 28 U.S.C. §§ 157 and 1334, Bankruptcy Rule 5005 and Local Rule 1070-1. This proceeding is a core proceeding. The petition commencing this case was filed on August 11, 2004 (the "Filing Date"). This case is now pending before this Court.

7. This motion arises under 11 U.S.C. § 364(c) of the Bankruptcy Code, and Fed.R. Bankr.P. 2002, 4001 and 9014. This motion is filed under Local Rules 2002-1, 2002-4, 9013-1, 9013-2, and 9013-3.

8. Debtor and its lenders, Bruce E. Hendry and GDN Holdings LLC (together, "Lender"), intend to enter into a Line of Credit Agreement providing for secured DIP borrowing (the Agreement"), substantially in the form attached as **Attachment 1**. Pursuant to Bankruptcy Rule 4001(d)(4), DEBTOR HEREBY GIVES NOTICE OF INTENT TO SEEK APPROVAL OF THE AGREEMENT.

9. Debtor requests an order authorizing interim and final approval of the Agreement so that the Debtor may meet the ordinary expenses of operating the Debtor's business, as estimated in the budget and cash flow projections attached hereto as **Exhibit A**.

BACKGROUND

10. Debtor is a limited liability corporation organized under the laws of the State of Delaware.

11. Debtor has been engaged in the business of processing and selling ethanol derived from corn and other sugars since April 2000, following completion of construction of its processing plant on West 7th Street in St. Paul.

12. From the outset, Debtor encountered operational problems as well as community resistance and complaints relating to the noise and odor associated with its operations. These complaints ultimately resulted in litigation commenced by the City of St. Paul (the “City”) claiming odor nuisance, in which certain neighbors intervened as additional plaintiffs. In addition, the Environmental Protection Agency and the Minnesota Pollution Control Agency commenced an enforcement action against Debtor as part of their campaign concerning emissions from ethanol processors across the country. The enforcement action was settled with the entry of a consent decree in 2001, which was amended in 2003.

13. Minnesota Brewing Company (“MBC”), an affiliate of Debtor, operated a brewery on the same property in St. Paul. Due in part to the stress on Debtor’s business described above, MBC filed a petition under Chapter 11 of the Bankruptcy Code in February 2002. MBC was unable to reorganize its financial affairs and closed its operations in June 2002 with a loss of approximately 180 jobs.

14. In 2003, Debtor reached settlement with the City and the intervening neighbors, which was embodied in a Stipulation and Order entered September 29, 2003. The settlement required Debtor to take expensive remediation measures and make significant capital improvements in its facility.

15. In 2004, Debtor continued to suffer production problems and struggled to reach profitability. Meanwhile, the price of corn, Debtor's principal raw material, increased dramatically without a corresponding increase in the price of ethanol that Debtor could obtain. As a result, Debtor suspended operations on May 11, 2004, and laid off many of its employees.

16. Prior to the cessation of operations, Debtor had achieved complete compliance with the terms of the settlement with the City and neighborhood interveners and had satisfied the requirements of the EPA/MPCA consent decree, as amended.

17. Since cessation of operations, the price of corn has moderated and ethanol prices remain favorable, making the prospect of restarting operations a realistic option. Debtor has attempted to secure additional investment to supply capital needed for that purpose. Those efforts are still underway.

18. The absence of operations has reduced Debtor's cash flow to the point that it has not been able to pay its creditors as obligations come due. Accordingly, Debtor has filed this Chapter 11 case to preserve its assets and facilitate the restart of operations or the sale of the facility.

19. Debtor remains active in its quest to obtain investment to restart operations. However, Debtor is also considering the sale of its ethanol assets to other ethanol producers and/or others are interested in alternative uses for the real property in St. Paul.

20. Lender is the holder of promissory notes, with a current approximate aggregate indebtedness of \$24,308,914 ("Debt"), consisting of a revolving credit facility and mortgage debt acquired in an assignment from Stearns Bank on June 30, 2003, and separate loans by Lender made previous to that date.

21. The Debt is secured by a security interest in Debtor's personal property, including inventory, equipment, accounts and general intangibles and a mortgage in Debtor's real property

(collectively "Collateral") pursuant to loan documents including a security agreement and mortgage in favor of Stearns Bank dated March 29, 1999, and a security agreement and related documents in favor of Bruce Hendry dated February 14, 2002, as subsequently amended.

22. Stearns Bank filed a UCC financing statement regarding its security interest in the Collateral on April 2, 1999 with the Minnesota Secretary of State and recorded its mortgage with the Ramsey County Registrar of Titles on March 30, 1999. Stearns Bank also filed a UCC financing statement regarding its security interest with the Delaware Department of State, which was assigned to Lender by assignment recorded with that office on June 30, 2003. Separately, Bruce Hendry filed financing statements with the Minnesota Secretary of State and the Delaware Department of State in March 2002.

FACTS REGARDING COLLATERAL VALUES AND CASH NEEDS

23. The Debtor's Balance Sheet, as of August 11, 2004, is attached hereto as **Exhibit B**. Debtor has filed its schedules with the Court showing its estimate of the fair market value of its assets to be approximately \$12 million. Based on this valuation, Lender's claim in this case is substantially undersecured.

24. The Debtor's cash needs for the remainder of the year are set forth on **Exhibit A** attached hereto. For the period until the final hearing, **Exhibit A** contains only those items and those amounts as are necessary to avoid immediate and irreparable harm to the estate pending that hearing.

25. The Debtor has been unable to obtain the needed credit: (i) on an unsecured basis as an administrative expense having administrative priority pursuant to section 364(a) or 364(b) of the Bankruptcy Code, (ii) on an unsecured basis as an administrative expense having priority over all administrative expenses pursuant to section 364(c)(1) of the Bankruptcy Code, (iii) secured by a

first lien on unencumbered assets of the Debtor pursuant to section 364(c)(2) of the Bankruptcy Code, or (iv) secured by a junior lien pursuant to section 364(c)(3) of the Bankruptcy Code.

26. Debtor has received a commitment from the Lender to fund Debtor's operating expenses on the terms and conditions set out in the Agreement attached hereto as **Attachment 1**. This commitment will fund Debtor's cash needs through the end of the year. By that time, Debtor will have determined whether reorganization or a sale of its assets can be achieved.

27. **Exhibit A** shows Debtor's cash needs for the remainder of the year to total \$372,000, while the commitment from the Lender is \$350,000. Debtor believes it will have cash receipts which will more than cover the difference. Those receipts are account proceeds and rents in the hands of Cherokee Bank as of the filing date and a receivable from the State of Minnesota for statutory production credits, both of which are cash collateral of the Lender. Lender will consent to the use of that cash collateral by Debtor for the expenses on **Exhibit A**. Therefore, Debtor will have sufficient cash to pay its expenses.

28. The Debtor's bankruptcy estate will suffer immediate and irreparable harm if it is unable to borrow money from the Lender under the terms and conditions of **Attachment 1** and use cash collateral to the extent described above. Accordingly, the Debtor requests an expedited hearing.

SUMMARY OF AGREEMENT

29. The Agreement provides for the cash needs of the Debtor up to \$350,000 to be funded by the Lender during the remainder of the year. Debtor believes that this time will be adequate to sell its assets or put into place a plan to restart operations.

30. The Agreement further provides that the Debtor will grant Lender a security interest to secure the post-petition advances in all property of the estate including real property, inventory, accounts, equipment and general intangibles, which liens shall have first priority. The

Debtor will execute and deliver to the Lender such further documents necessary to effectuate the terms of the Agreement. In addition, Lender's post-petition advances will be accorded super-priority administrative expense status, with a carve-out for necessary professional fees.

31. Lender shall have the right to refuse to advance and call the loan upon default by the Debtor of its obligations under the terms of the Agreement and failure by Debtor to cure within 5 days.

32. As adequate protection of Lender for the use of cash collateral described above, Debtor will grant to Lender a first priority security interest in the Collateral and grant Lender a super-priority administrative claim, to the same extent as that accorded the post-petition advances under the Agreement, to the extent of such use of cash collateral.

33. Pursuant to Local Rule 9013-2, Debtor gives notice that it may, if necessary, call David Kreitzer, its President, to testify regarding the facts relevant to this motion.

WHEREFORE, Debtor moves the Court for an order (a) granting an expedited hearing; (b) granting interim approval of the Agreement pending the final hearing; (c) granting final approval of the Agreement; (d) authorizing Debtor to provide adequate protection and the liens described in the motion, and (e) granting any other relief the Court deems just and proper.

Dated: August 13, 2004

RAVICH MEYER KIRKMAN
McGRATH & NAUMAN,
A PROFESSIONAL ASSOCIATION

By /e/ Michael L. Meyer (72527)
Will R. Tansey (0323056)

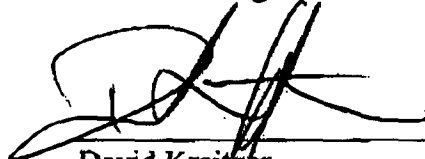
4545 IDS Center
80 South Eighth Street
Minneapolis, MN 55402
(612) 332-8511

ATTORNEYS FOR DEBTOR

VERIFICATION

I, David Kreitzer, President and Chief Operating Office of Debtor, declare under penalty of perjury that the facts set forth in the foregoing Notice of Hearing and Motion for Expedited Hearing for Interim and Final Orders Authorizing Debtor to Obtain Post-petition Financing and Authorizing Use of Cash Collateral, are true and correct according to the best of my knowledge, information and belief.

Executed on: August 12, 2004


David Kreitzer

LINE OF CREDIT AGREEMENT

This Line of Credit Agreement (the "Credit Agreement"), dated as of August 11, 2004, is made by and between **Gopher State Ethanol, LLC, a Delaware limited liability company** (the "Company"), and **Bruce E. Hendry and GDN Holdings, LLC, a Minnesota limited liability company** (collectively, the "Lenders").

RECITALS

- A. Lenders previously loaned the Company funds pursuant to a Line of Credit Agreement, dated February 14, 2002, as amended (the "Original Line of Credit"). Under the terms of the Original Line of Credit, Lenders agreed to loan the Company up to \$7,000,000.00, which amounts are secured by substantially all of the Company's assets pursuant to a Security Agreement, dated February 14, 2002, executed by the Company in favor of Lenders, as such agreement has been amended (the "Original Security Agreement").
- B. Lenders also purchased from Stearns Bank National Association ("Stearns") certain loans from Stearns to the Company (the "Stearns Loans"). Pursuant to Lenders' purchase of the Stearns Loans, Stearns assigned, among other things, that certain Security Agreement, dated March 29, 1999, executed by the Company in favor of Stearns (the "Stearns Security Agreement").
- C. Under the terms of the Original Security Agreement and Stearns Security Agreement, Lenders have a first priority lien on substantially all of the Company's assets.
- D. The Company intends to commence a proceeding (the "Bankruptcy Action") under Chapter 11 of the Bankruptcy Code, 11 U.S.C. § 101, et. seq. (the "Code"), in the United States Bankruptcy Court for the District of Minnesota (the "Bankruptcy Court").
- E. Lenders are willing to provide post-petition financing to the Company on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual promises set forth herein and other good and valuable consideration, the parties hereby agree as follows:

1. Loan Commitment. Lenders hereby agree to lend up to \$350,000 (the "Commitment") to the Company from time to time for the Company to use for working capital purposes and to pay administrative expenses incurred in connection with the Bankruptcy Action, subject to the terms and conditions of this Credit Agreement.

2. Advances. Each advance under this Credit Agreement shall be made on prior written request from the Company to Lenders. The written request shall contain documentation establishing the working capital expenses or administrative expenses for which the advance is to be used. Lenders shall be under no obligation to make any advance to the Company unless (i)

they receive reasonable documentation evidencing the working capital expenses or administrative expenses, (ii) in the case of working capital expenses, such expenses are consistent with the historical operations of the Company, (iii) the Company is otherwise in compliance with this Agreement, and (iv) all contingencies set forth herein have been satisfied.

3. Revolving Note. The advances made by Lenders to the Company shall be evidenced by and repayable in accordance with the Revolving Note executed by the Company and substantially in the form of Exhibit A attached hereto (the "Note"). The terms and conditions of the Note are incorporated herein by reference and are made a substantive part of this Credit Agreement.

4. Superpriority Lien; Security. Notwithstanding anything else contained in this Credit Agreement or the Note to the contrary, Lenders shall have no obligation to make any advance to the Company until a post-petition financing order (the "Post-Petition Financing Order") has been entered by the Bankruptcy Court, in form and substance acceptable to Lenders, in their sole and absolute discretion. The Post-Petition Financing Order shall, among other things, (i) approve the terms of this Credit Agreement, (ii) pursuant to 11 U.S.C. § 364(d), grant to Lenders a first priority, attached and perfected lien and security interest to secure the obligations under this Credit Agreement and the Note which is senior to all other liens in all of the Company's pre-petition and post-petition assets and collateral; (iii) grant Lenders superpriority status under the provisions of 11 U.S.C. § 364(c)(1) over all other administrative expenses incurred in the Borrower's Chapter 11 case, whether arising or assessed under §§ 105, 326, 328, 503(b), 506(c), 507(a), 507(b), 546(c) or 1114 of the Code (except for court costs and quarterly fees under 28 U.S.C. § 1930 and except for court approved professional fees payable to professionals retained by the Company not to exceed the aggregate amount of \$100,000.00); (iv) provide that pursuant to 11 U.S.C. § 364(e) that neither the reversal or modification of such order, nor the entry of an order confirming a plan of reorganization in the Company's Chapter 11 case or the conversion of such case to a case under Chapter 7 of the Code shall affect the validity or priority of Lenders' administrative expense status or the liens and security interests with respect to the Company's obligations to Lenders as approved by the Bankruptcy Court; and (v) further provide that the liens in favor of Lenders shall be deemed to be perfected as of the date the Post-Petition Financing Order is entered without the need to file any financing statement or take any further action.

5. Termination Date. All amounts owed under this Credit Agreement and the Note shall be due and payable on the earliest of the following dates (the "Termination Date"):

- a) The date the Post-Petition Financing Order is reversed, revoked, stayed, rescinded, modified or amended;
- b) Upon entry of an order dismissing the Bankruptcy Action or converting it to a case under Chapter 7 of the Code;
- c) Upon entry of an order authorizing the appointment of a trustee or examiner;
- d) Upon the date a confirmed Plan of Reorganization becomes effective;

- e) Upon the entry of an order granting any party, other than Lenders, relief from the automatic stay under Section 362 of the Code;
- f) Upon the occurrence of an Event of Default under the Credit Agreement within five (5) days following notice to the Company of such default; and
- g) March 31, 2005.

6. Default. The Company shall be in default under this Credit Agreement upon the happening of any of the following events: (a) nonpayment, when due, of any amount payable under the terms of the Note or this Credit Agreement, or (b) the Company's failure to comply with any term or condition set forth in this Credit Agreement or the Note within five (5) days following notice to the Company of such default. In the event of a default as defined above: (a) Lenders shall have the right, at their option and without demand or notice, to declare all or any portion of the principal and interest due under the Note immediately due and payable; (b) Lenders shall not be obligated to advance any further funds hereunder; and (c) Lenders may exercise, in addition to the rights and remedies granted hereby, all of the rights and remedies available under any applicable law or in equity. Notwithstanding the foregoing, Lenders shall obtain leave from the Bankruptcy Court before exercising any of their rights and remedies pursuant to (c), above.

7. Successors and Assigns. This Credit Agreement shall be binding upon and inure to the benefit of the Company and Lenders, and their respective successors and assigns. The Company shall not assign this Credit Agreement or the Note without the prior written consent of Lenders.

8. Governing Law. This Credit Agreement shall be governed by, and construed in accordance with, the laws of the State of Minnesota.

[The remainder of this page intentionally left blank.]

IN WITNESS WHEREOF, the parties have hereunto set their hands as of the date first written above.

THE COMPANY:

LENDERS:

GOPHER STATE ETHANOL, LLC

By: _____
Name: _____
Title: _____

Bruce E. Hendry

GDN HOLDINGS, LLC

By: _____
Name: _____
Title: _____

Exhibit A

Note

EXHIBIT A

[illegible]

10-Dec	17-Dec	24-Dec	31-Dec		
51,700	3,900	10,900	2,100		
	22,000				
0	22,000	0	0		
51,700	25,900	10,900	2,100		
8,800	8,800	0	11,350		
0	0				
9,000					
30,000	0	0	0		
	15,000				
47,800	15,000	8,800	1,350		
-47,800	7,000	-8,800	-1,350		
3,900	10,900	2,100	750		

GOPHER STATE ETHANOL
Balance Sheet
As of August 11, 2004

Aug 11, 04

ASSETS

Current Assets

Checking/Savings

Cherokee - Wire Transfers Activ 5,248

Cherokee Operating Account 12,787

Total Checking/Savings 18,035

Accounts Receivable

Accounts Receivable - Trade 13,681

State Producer Payment Rec. 227,491

Total Accounts Receivable 241,172

Other Current Assets

Deferred Property Taxes - 2004 69,000

Chemical & Ingred Invty 80,482

Denaturant Inventory -52

Prepaid Expenses 24,180

Spare Parts Inventory 301,739

Misc. Accounts Receivable 199,634

Total Other Current Assets 674,983

Total Current Assets 934,190

Fixed Assets

Plant Construction 23,014,660

Plant Equipment 7,704,263

Building 1,050,231

Other Equipment 1,504

Office Equipment 1,975

Land 137,500

Accum Depreciation 01/01/04

Current Year Depreciation -1,495,207

Accum Depreciation 01/01/04 - Other -8,364,916

Total Accum Depreciation 01/01/04 -9,860,123

Total Fixed Assets 22,050,010

Other Assets

Deferred A/R- Mn. Producer Pmt 2,391,306

Total Other Assets 2,391,306

TOTAL ASSETS 25,375,506

LIABILITIES & EQUITY

Liabilities

Current Liabilities

Accounts Payable

Accounts Payable - Trade 8,356,535

Total Accounts Payable 8,356,535

GOPHER STATE ETHANOL

Balance Sheet

As of August 11, 2004

Aug 11, 04

Other Current Liabilities

Accrued Liabilities

Corn Vendor Accruals

534,089

Total Accrued Liabilities

534,089

Accrued Interest Payable

1,758,176

Accrued Property Taxes

-40,927

Advances from Investors

9,062,417

Current Portion of LTD

900,000

Stearns Bank L.O.C.

1,761,750

Total Other Current Liabilities

13,975,505

Total Current Liabilities

22,332,040

Long Term Liabilities

Deferred Income-Mn Producer Pmt

2,391,306

Class B - Distribution Accrual

3,394,993

Note Payable - Stearns Bank

10,333,409

Total Long Term Liabilities

16,119,708

Total Liabilities

38,451,748

Equity

Equity Contributed Class A

2,923,292

Equity Contributed Class B

6,500,000

Opening Bal Equity

5,605

Retained Earnings

-14,812,557

Shareholder Distribution

-3,394,993

Net Income

-4,297,587

Total Equity

-13,076,240

TOTAL LIABILITIES & EQUITY

25,375,508

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA**

In re:

GOPHER STATE ETHANOL, LLC

Debtor.

**Bky. No. 04-34706 (DDO)
Chapter 11**

MEMORANDUM OF LAW

The Debtor, through its undersigned counsel, submits this Memorandum in support of its Motion for Interim and Final Orders Authorizing Debtor to Obtain Post-Petition Financing and Authorizing Use of Cash Collateral ("Motion"). The court will hold a hearing to consider the Motion.

FACTS

The factual basis for this Memorandum are set forth in the verified Motion and are incorporated as though fully set forth herein.

LEGAL ARGUMENT

**THE PROPOSED FINANCING IS NECESSARY TO A SUCCESSFUL
REORGANIZATION**

11 U.S.C. ' 364(c) provides:

If the trustee is unable to obtain unsecured credit allowable under section 503(b)(1) of this title as an administrative expense, the court, after notice and a hearing, may authorize the obtaining of credit or the incurring of debt--

- (1) with priority over any or all administrative expenses of the kind specified in 503(b) or 507(b) of this title;
- (2) secured by a lien on property of the estate that is not otherwise subject to a lien; or
- (3) secured by a junior lien on property of the estate that is subject to a lien.

As set forth in the verified Motion, the Debtor cannot restart its business or market its assets for sale \without continued financing. The terms of the proposed financing are reasonable and in the interests of the estate and its creditors.

The proposed financing is necessary to a successful reorganization. If the Debtor is unable to obtain the proposed financing, conversion to chapter 7 is unavoidable.

**THERE IS CAUSE FOR EXPEDITED RELIEF AND INTERIM APPROVAL
OF THE AGREEMENT.**

As set forth in the Motion the Debtor must have immediate access to the post-petition advances to avoid irreparable harm. Pending a final hearing on the Motion Debtor proposes to pay normal operating expenses as set forth in the Motion.

CONCLUSION

For reasons set forth in the Motion and this Memorandum, Debtor respectfully requests the relief requested be granted on an expedited basis.

Dated: August 13, 2004

RAVICH MEYER KIRKMAN
McGRATH & NAUMAN,
A PROFESSIONAL ASSOCIATION

By /e/ Michael L. Meyer (72527)
Michael F. McGrath (168610)
Will R. Tansey (323056)
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Minneapolis, MN 55402
(612) 332-8511

ATTORNEYS FOR DEBTOR

UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA

In re:

GOPHER STATE ETHANOL, LLC,

Bky. No. 04-34706
Chapter 11

Debtor.

UNSWORN CERTIFICATE OF SERVICE

I, Michael L. Meyer, declare under penalty of perjury that on August 13, 2004, copies of Debtor's 1) Notice of Hearing and Motion for Expedited Hearing for Interim and Final Orders Authorizing Debtor to Obtain Post-Petition Financing and Authorizing Use of Cash Collateral; 2) Memorandum of Law; 3) proposed Order, were served by a) via facsimile transmission; b) via messenger; or c) via U.S. Mail as noted on the attached Service List.

Dated: August 13, 2004

/e/ Michael L. Meyer (72527)

GOPHER STATE ETHANOL LLC
C/O MICHAEL L. MEYER
RAVICH MEYER KIRKMAN
4545 IDS, 80 S 8TH ST
MINNEAPOLIS MN 55402

MESSENGER
INTERNAL REVENUE SERVICE
ATTN: SPECIAL PROCEDURES
316 NO. ROBERT ST., STOP 5700
ST. PAUL, MN 55101-1423

U.S. MAIL
SEC -CHICAGO REGION
ATTN BANKRUPTCY DIVISION
175 WEST JACKSON BLVD, #900
CHICAGO, IL 60604

MESSENGER
CITY OF ST. PAUL, MN
C/O KYLE E. HART, ESQ.
FABYANSKE WESTRA & HART
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VIA MESSENGER
MR. BRUCE HENDRY
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MESSENGER
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C/O STEVEN J. KLUZ, ESQ.
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MESSENGER
LINDQUIST & VENNUM PLLP
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MESSENGER
RUTLEDGE CONSTRUCTION CO.
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1409 SOUTH 7TH ST
HOPKINS MN 55343

FACSIMILE
UNIVAR USA INC.
ATTN JOHN CANINI
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KIRKLAND WA 98033

VIA MESSENGER
KPMG
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MESSENGER
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FACSIMILE
CASE CREDIT
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RACINE WI 53403

MESSENGER
XCEL ENERGY
ATTN LEE GABLER
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MINNEAPOLIS MN 55401

MESSENGER
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ATTN JERRY JOHNSON
2280 SIBLEY COURT
EAGAN MN 55122

MESSENGER
METROPOLITAN MECHANICAL
ATTN MILO HAARKLAU
7340 WASHINGTON AVE
EDEN PRAIRIE, MN 55344

MESSENGER
GAGNON INC.
ATTN RONALD GAGNON
2286 CAPP ROAD
ST PAUL MN 55114-1264

FACSIMILE
1ST INS. FUNDING CORP.
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CHICAGO IL 60674-8075

MESSENGER
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ATTN GERHARD KNUTSON
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EDINA MN 55410

MESSENGER
UNITED STATES ATTORNEY FOR
THE DISTRICT OF MINNESOTA
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MINNEAPOLIS, MN 55415

MESSENGER
OFFICE OF MN ATTORNEY GENERAL
ATTN CHRISTIE B. ELLER
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ST. PAUL MN 55101-2134

MESSENGER
GLOBAL MANAGEMENT GROUP LLC
C/O KENNETH COREY-EDSTROM
LARKIN HOFFMAN DALY
1500 WELLS FARGO PLAZA, 7900 XERXES S
MINNEAPOLIS, MN 55431

MESSENGER
BRUCE E HENDRY
GDN HOLDINGS
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HOPKINS MN 55305

FACSIMILE
GRAIN COMMERCE
ATTN GREG MIKKELSON
21575 515TH AVE
LAKE CRYSTAL MN 56055

MESSENGER
LEONARD STREET & DEINARD
ATTN AL WOODWARD
150 SOUTH FIFTH ST 32300
MINNEAPOLIS MN 55402

FACSIMILE
NOVOZYMES NORTH AMERICA INC.
ATTN CHRIS STRECKFUSS
77 PERRY CHAPEL CHURCH RD
FRANKLINTON NC 27525

MESSENGER
SMITH-SHARPE FIRE BRICK SUPPLY
ATTN: ACCOUNTING
117 27TH AVE SE
MINNEAPOLIS MN 55414

MESSENGER
EARTH TECH INC.
ATTN MIKE VALENTINE
3033 CAMPUS DRIVE NORTH, STE 290
MINNEAPOLIS, MN 55441

MESSENGER
FREMONT INDUSTRIES INC.
ATTN BILL MILLER
4400 VALLEY INDUSTRIAL BLVD NO
SHAKOPEE MN 55379

FACSIMILE
WESTMOR INDUSTRIES LLC
ATTN CREDIT MANAGER
3 DEVELOPMENT DRIVE
MORRIS MN 56267

FACSIMILE
LAROCHÉ INDUSTRIES INC.
ATTN JOHN ANDERSON
1100 JOHNSON FERRY RD
ATLANTA GA 3042

FACSIMILE
VICTORY ENERGY OPERATIONS LLC
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MESSENGER
RAMSEY CO PROP RECORDS
RAMSEY CO. COURTHOUSE
15 KELLOGG BLVD WEST
ST PAUL MN 55102

August 13, 2004

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA**

In re:

GOPHER STATE ETHANOL, LLC

Debtor.

**Bky. No. 04-34706
Chapter 11**

**ORDER GRANTING PRELIMINARY MOTION
TO APPROVE POSTPETITION FINANCING PURSUANT
TO SECTION 364(C) AND USE OF CASH COLLATERAL**

This matter came before the Court on August 18, 2004, upon Debtor's Motion for Expedited Hearing for Interim and Final Orders Authorizing Debtor to Obtain Post-Petition Financing and Authorizing Use of Cash Collateral pursuant to Section 364(c) (the "Financing Motion"). Appearances of counsel were as noted in the record. The Court having considered the evidence and the arguments of counsel FINDS AS FOLLOWS:

1. This Court has jurisdiction to hear this Financing Motion pursuant to 28 U.S.C. §§157 and 1334. This is a core proceeding under 28 U.S.C. §157(b)(2)(D), (K), (M), and (O).
2. Notice of filing of the Financing Motion and this hearing was adequate and sufficient under the circumstances pursuant to the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure ("Bankruptcy Rules") and the Local Bankruptcy Rules. A copy of the Financing Motion was properly served upon all parties entitled to service under the Bankruptcy Code, the Bankruptcy Rules and the Local Bankruptcy Rules.
3. It is necessary for the Debtor to obtain limited post-petition financing to operate its business. An immediate need exists for the Debtor to obtain that post-petition financing without which the Estate may suffer substantial harm.

4. The Debtor has been unable to obtain the needed credit: (i) on an unsecured basis as an administrative expense having administrative priority pursuant to section 364(a) or 364(b) of the Bankruptcy Code, (ii) on an unsecured basis as an administrative expense having priority over all administrative expenses pursuant to section 364(c)(1) of the Bankruptcy Code, (iii) secured by a first lien on unencumbered assets of the Debtor pursuant to section 364(c)(2) of the Bankruptcy Code, or (iv) secured by a junior lien pursuant to section 364(c)(3) of the Bankruptcy Code.

5. The assets of the Estate are subject to pre-petition liens in favor of Bruce Hendry and GDN Holdings, LLC (the "Lender"). The debt secured by the Lender's lien exceeds the value of the Collateral if that Collateral were liquidated today.

6. The Debtor has been unable to obtain post-petition financing adequate to meet its needs on terms and conditions more favorable than those set forth in the Motion. Lender is willing to provide the needed credit to the Debtor but only if it is secured by a first priority mortgage and security interest in the property of the Estate under 11 U.S.C. §364(c)(1) on the terms set forth herein.

NOW, THEREFORE, IT IS ORDERED:

- A. The Preliminary Financing Motion is hereby granted.
- B. The Debtor is immediately authorized to borrow, subject to and in accordance with the terms and conditions set forth in the Motion, up to an aggregate amount of \$100,000 from Lender, only for the purposes set forth on Exhibit A to the Motion.
- C. To secure the payment of the Debtor's obligations as authorized by this Order, Lender shall be and hereby is granted, pursuant to section 364(c) of the Bankruptcy Code, a first priority lien in all property of the estate. The first lien in favor of Lender shall be deemed to be perfected as of the date this Order is entered without the need to file any financing statement or take any further action.

D. Lender shall be and hereby is authorized to take any action it deems necessary or appropriate to perfect the liens and security interests granted to him hereunder, including but not limited to filing financing statements, all of which shall be deemed to have been filed on the date of entry of this Order.

E. Except to the extent set forth in the Credit Line Agreement, all loans and extensions of credit hereunder from time to time hereafter owing by the Debtor to Lender shall have superpriority under the provisions of sections 364(c)(1) of the Bankruptcy Code over all administrative expenses incurred in this case, whether arising or assessed under §105, 330, 331, 503(b), 506(c), 507(a), 507(b) or 726 of the Bankruptcy Code and shall at all times be senior to the rights of the Debtor or any successor trustee in this or any subsequent case under the Bankruptcy Code. No other claim, having a priority superior to, or on a parity with, that granted to Lender by this Order, shall be granted while any of the Debtor's obligations to him covered by this Order remain outstanding.

Dated: August __, 2004

Dennis D. O'Brien, Judge
United States Bankruptcy Court